



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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**Letter Report: Comparative Analysis of Collections
to Revised Revenue Estimates for
Fiscal Year 2005**

May 4, 2006



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The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Comparative Analysis of Collections to Revised Revenue Estimates for Fiscal Year 2005

Dear Chairman Cropp and Members of the Council of the District of Columbia:

This letter report presents the Office of the District of Columbia Auditor's (ODCA) comparison of the District of Columbia's (District) collections for fiscal year (FY) 2005 for tax and non-tax revenues, and other financing sources, to the revised FY 2005 revenue estimates.¹

BACKGROUND

The FY 2005 revenue estimate as of June 2004 was \$4.113 billion. In November 2004, the estimate was increased by \$55 million to \$4.168 billion. The Chief Financial Officer again revised the FY 2005 estimate in February 2005 to \$4.277 billion, an increase of \$109 million above the November 2004 estimate. In May 2005, the revenue estimate was again increased by \$50.6 million to \$4.327 billion. The May 2005 estimate was further revised to \$4.274 billion which is the FY 2005 revenue estimate presented in the FY 2005 Comprehensive Annual Financial Report (CAFR).² The revised estimate of \$4.274 billion does not include the FY 2005 revised Lottery estimate of \$73.1 million. However, for this analysis, the District of Columbia Auditor (Auditor) included the FY 2005 collections of \$71.4 million and revised revenue estimate of \$73.1 million for the Lottery, resulting in overall FY 2005 collections of \$4.476 billion and a revised estimate of \$4.347 billion.

¹Throughout this report, the term "collections" references cash collections, accruals and year-end adjustments and represents the actuals as presented on Schedule A-4 of the FY 2005 CAFR. The FY 2005 revised revenue estimate references the revised budget as presented on the same CAFR schedule. The FY 2005 CAFR presents the District government's audited financial statements for FY 2005.

²According to officials of the Office of Revenue Analysis (ORA), the revisions to the revenue estimate were made because of changes in economic conditions as well as legislative changes and revenue enhancements approved by the Council of the District of Columbia.

The FY 2005 revenue estimate of \$4.347 billion excludes “dedicated non-tax “O” type revenue” of \$311.8 million. Therefore, in this analysis, the Auditor compares actual collections to the \$4.347 billion estimate, and includes a discussion of dedicated non-tax “O” type revenue in this report.

METHODOLOGY

To conduct this comparative analysis, ODCA used: (1) the \$4.347 billion estimate;³ (2) the FY 2005 CAFR; (3) the 4th quarter Comparative Report of Cash Collections by Funds prepared by the Office of Revenue Analysis (ORA); and (4) other relevant information.

The Auditor interviewed ORA officials regarding cash collections through the 4th quarter of FY 2005 and obtained from Office of Tax and Revenue (OTR) officials the final collections for FY 2005 and year-end adjustments that were made during the District’s FY 2005 closing process. Additionally, the Auditor interviewed officials in the District’s Department of Transportation (DOT), Metropolitan Police Department (MPD) and local economists regarding economic forecasts for the District and the surrounding region.⁴ The Auditor also reviewed economic data from several sources, including the National Oceanic and Atmospheric Administration (NOAA), the District’s Department of Employment Services (DOES), the Real Estate Association of the Washington Metropolitan Area, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), the Travel Industry Association of America, Washington, D.C. Convention & Tourism Corporation (WDCCTC), the Consumer Price Index (CPI), and CB Richard Ellis.⁵

³The \$4.347 billion includes \$4.274 billion for local source revenues and \$73.1 million for Lottery (Legalized Gambling).

⁴Interviews conducted with Professor Stephen Fuller, the Dwight Schar Professor of Public Policy and Director of Center for Regional Analysis at George Mason School of Public Policy and Dr. Ray Whitman, Acting Associate Dean, School of Business and Public Administration, University of the District of Columbia and President and Chief Economist of Job Trends Associates, Inc.

⁵According to its website, CB Richard Ellis provides real estate services to its clients and together with their partner and affiliate offices, have offices in several countries.

RESULTS OF ANALYSIS

Collections from: (1) tax, (2) non-tax, and (3) other financing sources for FY 2005 totaled \$4.476 billion, which were \$129 million, or 2.97%, above the \$4.347 billion revised estimate for FY 2005.⁶ The \$4.476 billion in collections represented 103% of the total \$4.347 billion revised estimate.⁷ Collections for FY 2005 from tax and non-tax revenues and other financing sources are presented below.

- ◆ **Tax** - total tax collections were \$4.052 billion, which were \$117 million, or 2.97%, above the revised tax estimate of \$3.935 billion for FY 2005.
- ◆ **Non-tax** - total non-tax collections were \$352 million, which were \$14.1 million, or 4.2%, above the revised non-tax estimate of \$338 million for FY 2005.
- ◆ **Other financing sources** - collections from other financing sources, which consisted of legalized gambling, totaled \$71.4 million, which were \$1.6 million, or 2.3%, below the revised other financing sources estimate of \$73.1 million for FY 2005.

Table I compares collections to revised estimates for FY 2005 for tax, non-tax, and other financing sources. Appendix I presents a graphic depiction of the information in Table I as well as other tables presented in this report.

TABLE I
Collections Summary
For Fiscal Year 2005
(\$000)

Tax Category	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Tax Collections	\$4,052,087	\$3,935,271	\$116,816	2.97%
Non-Tax Collections	352,427	338,335	14,092	4.2%
Other Financing Sources	71,450	73,100	(1,650)	(2.3%)
Total Revenues	\$4,475,964	\$4,346,706	\$129,258	2.97%

Source: FY 2005 CAFR

⁶Rounding may affect some calculations presented in this report.

⁷The \$4.347 billion revised estimate and \$4.476 billion in collections for FY 2005 are presented net of the Washington Convention Center Authority estimate and transfer, and also do not include the estimate and collections for dedicated non-tax "O" type revenue.

In conducting the analysis of collections for FY 2005, the Auditor also compared the collection trends for the five-fiscal years of 2001 through 2005. These comparisons are presented in Appendix II. During the five-fiscal year period, collections in each revenue category fluctuated from year to year. However, the Auditor notes that collections in the general property taxes category have steadily increased over the five-fiscal year period. On the other hand, collections in the income taxes category decreased in fiscal years 2002, 2003, but increased in fiscal years 2004 and 2005. Additionally, general sales and use taxes decreased in fiscal year 2002 but increased in fiscal years 2003, 2004 and 2005.

Appendix III presents a comparison of collections for FY 2005 to FY 2004 in each tax category.

GENERAL PROPERTY TAXES

General property taxes include: (A) real property taxes, (B) personal property taxes, and (c) revenue from public space rentals. The FY 2005 revised estimate for general property taxes was \$1.1483 billion. Collections of general property taxes for FY 2005 totaled \$1.1458 billion, which were:

- ◆ \$2.5 million, or .22%, below the \$1.1483 billion FY 2005 revised estimate; and
- ◆ \$117.8 million, or 11.46%, above collections for the same period in FY 2004.

Collections of general property taxes for FY 2005 represented 99.9% of the total revised revenue estimate for this category. Table II compares collections of general property taxes to the revised estimates for FY 2005.

TABLE II
General Property Taxes:
Comparison of Collections to Revised Estimates
For Fiscal Year 2005
(\$000)

General Property Taxes	Collections for FY 2005	Revised Estimates for FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Real Property	\$1,058,100	\$1,067,445	(\$9,345)	(.88%)
Personal Property	72,068	64,100	7,968	12.4%
Public Space Rental	15,628	16,765	(1,137)	(6.8%)
Total General Property Taxes	\$1,145,796	\$1,148,310	(\$2,514)	(.22%)

Source: FY 2005 CAFR

A. Real Property Tax Collections

Real property tax collections for FY 2005 totaled \$1.058 billion. These collections were \$9.3 million, or .88%, below the \$1.067 billion estimate. The real property tax category is the largest component of general property taxes.

Collections of real property taxes were lower than estimated for FY 2005, in part, because ORA slightly underestimated the amount of real property tax refunds the District would have to pay for successful appeals of real property assessments. ORA officials attributed the difference to the fact that the real property tax estimate was based on actual assessments, but taxpayers have the right to appeal their assessments which may result in reductions of a real property assessment. Although ORA adjusted the real property tax estimate to account for potential successful appeals, it appears that the adjustment was not sufficient to account for the actual number of successful appeals.

Notwithstanding the fact that collections were below the FY 2005 revised estimate, economic data reviewed by the Auditor indicates that FY 2005 was another record year for the District's real estate market.

B. Personal Property Tax Collections

Personal property tax collections for FY 2005 totaled \$72.1 million. These collections were \$7.9 million, or 12.4%, above the \$64.1 million estimate.

C. Public Space Rental Fees

Public space rental fees collected for FY 2005 totaled \$15.6 million. Collections for FY 2005 were \$1.1 million, or 6.8%, below the \$16.7 million estimate. Collections were also \$1.1 million, or 6.58%, below collections for FY 2004.

Overall, the District did not achieve the FY 2005 revised revenue estimate in the General Property Taxes category.

GENERAL SALES AND USE TAXES

The FY 2005 revised estimate for general sales and use taxes was \$772 million. Collections of general sales and use taxes for FY 2005 totaled \$768 million, which were:

- ◆ \$3.7 million, or .49%, below the \$772 million revised FY 2005 estimate; and
- ◆ \$97 million, or 14.5%, above collections for the same period in FY 2004.

General sales and use tax collections for FY 2005 represented 99% of the total FY 2005 revenue estimate for this category. Table III compares collections to the revised estimate for FY 2005 for general sales and use taxes.

TABLE III
General Sales and Use Taxes:
Comparison of Collections to the Revised Estimate
For Fiscal Year 2005
(\$000)

General Sales and Use Taxes	Collections For FY 2005	Revised Estimate For FY 2005	Difference: Collections Over/(Under) Revised Estimate	Percent Difference
General Sales and Use Taxes	\$768,308	\$772,080	(\$3,772)	(.49%)

Source: FY 2005 CAFR

Collections of General Sales and Use Taxes were \$3.7 million, or .49%, below the estimate for FY 2005. When ORA officials revised the estimate in May 2005, general sales and use taxes were growing at a rate of approximately 16.1%. Although this rate of growth continued for several more months, it declined in the 4th quarter of FY 2005. As compared to FY 2004, however, collections of general sales and use taxes grew by 14.5% in FY 2005. This growth reflects increased tourism and tourism related sales; high hotel occupancy levels; successful Cherry Blossom related activities; and increased business travel growth spurred, in part, by the new Washington Convention Center.

According to data obtained by the Auditor, over 67,000 delegates attended conventions and gatherings in July and August which represented a 65% increase over the number of meeting attendees that visited the city during the same period in 2004. The delegates generated an estimated 108,412 hotel room nights compared with 90,878 hotel room nights attributed to July and August conventions in 2004. Also, according to WDCCTC, the District continued its trend of strong performance in the leisure travel segment, thanks to several special events and cultural programs.

According to information in the Federal Reserve Board Beige Book dated July 27, 2005, the return of professional baseball to Washington, D.C. also boosted tourism in the District⁸.

SELECTIVE SALES AND USE TAXES

Selective sales and use taxes include: (A) alcoholic beverage, (B) cigarette, and (c) motor vehicle excise taxes. The FY 2005 revised estimate for selective sales and use taxes was \$68.9 million. Collections for FY 2005 totaled \$69.8 million which were:

- ◆ \$856,000, or 1.2%, above the \$68.9 million revised FY 2005 estimate; and
- ◆ \$3.5 million, or 5.24%, above collections for the same period in FY 2004.

Selective sales and use tax collections for FY 2005 represented 101% of the total FY 2005 revised revenue estimate for this category. Table IV compares actual collections to the revised estimate for FY 2005 for selective sales and use taxes.

TABLE IV
Selective Sales and Use Taxes:
Comparison of Collections to Revised Estimates
For Fiscal Year 2005
(\$000)

Selective Sales and Use Taxes	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Alcoholic Beverage	\$5,051	\$4,774	\$277	5.8%
Cigarette	22,336	21,466	870	4.1%
Motor Vehicle Excise	42,380	42,671	(291)	(.68%)
Total Selective Sales and Use Taxes	\$69,767	\$68,911	\$856	1.2%

Source: FY 2005 CAFR

⁸See Board of Governors of the Federal Reserve System website. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Banks and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by district and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis.

A. Alcoholic Beverage Tax

Alcoholic beverage tax collections for FY 2005 totaled \$5 million. These collections were \$277,000, or 5.8%, above the \$4.7 million revised estimate.

B. Cigarette Tax

Cigarette tax collections for FY 2005 totaled \$22.34 million. These collections were \$870,000, or 4.1%, above the \$21.47 million revised estimate. The higher than estimated collections of the cigarette tax may have resulted from business and tourist travelers' cigarette purchases during their stays in the District.

C. Motor Vehicle Excise Tax

Motor vehicle excise tax collections for FY 2005 totaled \$42.4 million. These collections were \$291,000, or .68%, below the \$42.7 million revised estimate. The fact that collections were slightly below the estimate was due, in part, to a decline in car sales in the 4th quarter of FY 2005. Auto sales were exceptionally strong in the second and third quarters of FY 2005 as a result of the marketing of employee incentive programs by car dealers. According to the Federal Reserve Board, Beige Book, July 27, 2005 report for the fifth district, automobile and light truck sales "chalked up record sales" in July and August as "employee pricing" and other incentive programs drew customers to showrooms. These incentive programs may have increased motor vehicle sales for the second and third quarters in the District as well.⁹

Overall, the District achieved the FY 2005 revised estimate in the selective sales and use taxes category.

INCOME TAXES

Income taxes include: (A) individual income tax, (B) corporate franchise tax, and (c) unincorporated business franchise tax. The FY 2005 revised estimate for the income taxes category was \$1.409 billion. Collections for FY 2005 totaled \$1.472 billion which were:

- ◆ \$62.9 million, or 4.5%, above the \$1.409 billion FY 2005 revised estimate; and
- ◆ \$173,423, or 13.35%, above collections for the same period in FY 2004.

⁹The Fifth District includes the Washington Metropolitan region, Washington, D.C., Maryland and Virginia, Richmond and other jurisdictions.

Income taxes collected for FY 2005 represented 104% of the total FY 2005 revised revenue estimate for this category. Table V compares collections to revised estimates for FY 2005 for income taxes.

TABLE V
Income Taxes:
Comparison of Cash Collections to Revised Estimates
For Fiscal Year 2005
(\$000)

Income Taxes	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/Under Revised Estimates	Percent Difference
Individual Income Taxes	\$1,160,074	\$1,088,682	\$71,392	6.6%
Corporate Franchise Taxes	195,492	218,244	(22,752)	(10.4%)
Unincorporated Business Franchise Taxes	116,866	102,600	14,266	13.9%
Total Income Taxes	\$1,472,432	\$1,409,526	\$62,906	4.5%

Source: FY 2005 CAFR

A. Individual Income Tax

Individual income tax collections for FY 2005 totaled \$1.160 billion. This tax is the largest in the income taxes category. These collections were \$71.4 million, or 6.6%, above the \$1.088 billion revised estimate. The increase in individual income taxes is primarily due to increasing per capita personal income in the District and continued improvement in the stock market. According to data obtained from the BEA for 2000 through 2004, per capita personal income in the District has increased from \$40,456 to \$52,101. Additionally, according to DOES reports, the District's unemployment rate dropped in July, August and September 2005. The seasonally adjusted unemployment rate was: 6.7% in July 2005, down .8% from June 2005, 6.4% in August 2005, down .3% from July 2005; and 6.1%, down .3% from the August 2005 rate.

Additionally, declarations (estimated payments) of individual income tax through the 4th quarter were \$214.3 million. These declarations were \$13.5 million, or 6.7%, above the estimate of \$200.7 million through the 4th quarter.

B. Corporate Franchise Tax

Corporate franchise tax collections for FY 2005 totaled \$195.5 million. These collections were \$22.7 million, or 10.4%, below the \$218.2 million revised estimate despite an overall growth rate of 16.1% from FY 2004. Corporations increased hiring in FY 2005 due to the continued surge in Federal government procurement spending related to the war in Iraq. Despite this, it appears that in the second half of FY 2005 growth of corporate franchise taxes slowed. Corporate franchise tax declarations (estimated tax payments) were 17% lower than the estimate through the 4th quarter and corporate franchise tax refunds were 42% lower than the estimate through the 4th quarter. The Auditor notes that the FY 2005 estimate for corporate franchise taxes may have been overly optimistic. The estimate for corporate franchise taxes was also not achieved in FYs 2002 and 2003. In FY 2004, however, collections exceeded the estimate by \$21 million.

C. Unincorporated Business Franchise Tax

Unincorporated business franchise tax collections for FY 2005 totaled \$116.9 million. These collections were \$14.3 million, or 13.9%, above the \$103 million revised estimate. According to ORA officials, many unincorporated business franchise taxpayers are partnerships associated with real estate management. The overall strength in the real estate market has contributed to increased collections in unincorporated business franchise tax.

Overall, the District achieved the FY 2005 revenue estimate in the income taxes category.

GROSS RECEIPTS TAXES

Gross receipts taxes include: (A) public utilities taxes, (B) toll telecommunications tax, (c) a tax on insurance premiums, and (D) a tax on healthcare providers. The revised estimate for gross receipts taxes was \$244.7 million. Collections of gross receipts taxes for FY 2005 totaled \$269.5 million, which were:

- ◆ \$24.8 million, or 10.1%, above the \$244.7 million FY 2005 revised estimate; and
- ◆ \$2.4 million, or .88%, below collections for the same period in FY 2004.

Gross receipts tax collections for FY 2005 represented 110% of the FY 2005 revised estimate for this category. Table VI compares collections to the revised estimates for FY 2005 for gross receipts taxes.

TABLE VI
Gross Receipts Taxes:
Comparison of Collections to Revised Estimates
For Fiscal Year 2005
(\$000)

Gross Receipts Taxes	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Public Utilities	\$166,039	\$147,407	\$18,632	12.6%
Toll Telecommunications	54,576	47,321	7,255	15.3%
Insurance Premiums	48,888	44,500	4,388	9.9%
Health Care Providers	0	5,500	(5,500)	(100%)
Total Gross Receipts	\$269,503	\$244,728	\$24,775	10.1%

Source: FY 2005 CAFR

A. Public Utilities Tax

Public utilities tax collected for FY 2005 totaled \$166 million. These collections were \$18.6 million, or 12.6%, above the \$147.4 million revised estimate. The strength in these collections for FY 2005 was due, in part, to increased profits collected by utility companies. According to data obtained from the NOAA, the average temperature in Washington, D.C. for the months of July through September was warmer than the average temperature during the same period in 2004. Because of the warmer weather, utility customers may have incurred higher utility bills resulting in increased revenue to utility companies. The average temperature for July through September 2004 was 73 degrees while it was 76 degrees for July through September 2005. Additionally, according to the CPI released in October 2005, fuel prices were up 37% from one year ago, natural gas prices were up 8.4%, and electricity was up 2.7%. The public utility tax is imposed on the gross receipts of utility companies. Therefore, increased revenue to these companies may have resulted in increased gross receipts tax payments to the District.

B. Toll Telecommunications Tax

Toll telecommunications tax collections for FY 2005 totaled \$54.6 million. These collections were \$7 million, or 15.3%, above the \$47.3 million revised estimate. The collections for this tax category are only slightly below collections for the same period in FY 2004.

C. Insurance Premium Tax

Insurance premium tax collections for FY 2005 totaled \$48.9 million. These collections were \$4.4 million, or 9.9%, above the \$44.5 million revised estimate. Also, collections for FY 2005 were 3.03% more than collections during the same period in FY 2004.

D. Health Care Provider Tax

There were no taxes collected from District-based health care providers in FY 2005. The tax was to be based on the gross receipts of District-based health care providers. The tax, which was supposed to be implemented in FY 2005, was delayed until FY 2006.

Overall, the District achieved the FY 2005 revenue estimate in the Gross Receipts Taxes category.

OTHER TAXES

Other Taxes include: (A) estate, (B) deed recordation, (c) deed transfer, and (D) economic interest transfer taxes. The FY 2005 revised estimate for other taxes was \$291.7 million. Collections of Other Taxes for FY 2005 totaled \$326.3 million, which were:

- ◆ \$34.6 million, or 11.8%, above the \$291.7 million FY 2005 revised estimate; and
- ◆ \$2.7 million, or .83%, below collections for the same period in FY 2004.

Collections of Other Taxes for FY 2005 represented 125% of the total FY 2005 revised revenue estimate. Table VII compares collections to the revised estimates for FY 2005 for Other Taxes.

TABLE VII
Other Taxes:
Comparison of Collections to Revised Estimates
For Fiscal Year 2005
(\$000)

Other Taxes	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Estate Taxes	\$29,257	\$23,440	\$5,817	24.8%
Deed Recordation	161,541	153,551	7,990	5.2%
Deed Transfer	124,890	110,225	14,665	13.3%
Economic Interests	10,593	4,500	6,093	135.4%
Total Other Taxes	\$326,281	\$291,716	\$34,565	11.8%

Source: FY 2005 CAFR

A. Estate Tax

Estate tax collections for FY 2005 totaled \$29.3 million. These collections were \$5.8 million, or 24.8%, above the \$23.4 million revised estimate. Collections from this revenue source are difficult to estimate due to the unpredictable event that triggers the tax.

B. Combined Deed Recordation and Transfer Taxes

Combined deed recordation and transfer taxes collected for FY 2005 totaled \$286.4 million. These combined collections were \$22.6 million, or 8.58%, above the \$263.8 million revised estimates. Collections from these sources were also strong during FY 2004. The continued strength of these collections reflects the resilience of the District's real estate market. For example, according to the September 2005 D.C. Housing Report, obtained from the Greater Capital Area Association of Realtors, year-to-date contract settlements for the sale of condo/co-ops in the District increased 22.7% over the same period in 2004. However, the strength in the real estate market may be softening as year-to-date contract settlements for the sale of single family homes decreased 2.2% over the same period in 2004.

C. Economic Interest Tax

Economic interest tax collections for FY 2005 totaled \$10.59 million. These collections were \$6.09 million, or 135.4%, above the \$4.5 million revised estimate. This tax is imposed on the amount paid for the transfer of ownership interest in a corporation.

Overall, the District achieved the FY 2005 revenue estimate in the Other Taxes category.

NON-TAX REVENUE

Non-tax revenue includes: (A) licenses and permit fees, (B) fines and forfeitures, (c) charges for services, and (D) miscellaneous revenue. The FY 2005 revised estimate for non-tax revenue was \$338.3 million. Collections for FY 2005 totaled \$352.4 million, which were:

- ◆ \$14.1 million, or 4.2%, above the \$338.3 million FY 2005 revised estimate; and
- ◆ \$28.7 million, or 8.8%, above collections for the same period in fiscal year 2004.

Non-tax revenue collections for FY 2005 represented 104% of the FY 2005 revised estimate for this category. Table VIII compares non-tax revenue collections to the revised estimate for fiscal year 2005.

TABLE VIII
Non-Tax Revenue:
Comparison of Collections to the Revised Estimates
For Fiscal Year 2005
(\$000)

Non-Tax Revenues	Collections For FY 2005	Revised Estimates For FY 2005	Difference: Collections Over/(Under) Revised Estimates	Percent Difference
Licenses and Permits	\$74,010	\$69,074	\$4,936	7.1%
Fines and Forfeitures	108,012	110,015	(2,003)	(1.8%)
Charges for Services	51,344	57,661	(6,317)	(11%)
Miscellaneous Revenue	119,061	101,585	17,476	17.2%
Total Non-Tax Revenue	\$352,427	\$338,335	\$14,092	4.2%

Source: FY 2005 CAFR

A. Licenses and Permit Fees

Licenses and permit fees collected for FY 2005 totaled \$74 million. Collections were \$4.9 million, or 7.1%, above the \$69.1 million revised estimate. According to ORA officials, the increased collections were due, in part, to higher than expected growth in business licenses, particularly related to business structures and equipment, and insurance licenses, both of which were fueled by the overall strength of the real estate market.

B. Fines and Forfeitures

Fines and forfeitures collected for FY 2005 totaled \$108 million. These collections were \$2 million, or 1.8%, below the \$110 million revised estimate. As compared to the previous fiscal year, however, collections were up by 8.58%. According to a DOT official, the lower than estimated collections may be attributed to additional photo radar cameras that were not installed in fiscal year 2005 as scheduled. It was estimated that the additional cameras would increase revenue collections in this category.

C. Charges for Services

Charges for services fees collected for FY 2005 totaled \$51.3 million. These collections were \$6.3 million, or 11%, below the \$57.6 million revised estimate. Collections were \$2.4 million, or 4.4%, below collections in FY 2004. ORA officials attributed the variance to problems regarding emergency ambulance collections.

D. Miscellaneous Revenue

Miscellaneous revenue includes: (1) interest income, (2) unclaimed property, (3) sale of surplus property, (4) other transfer,¹⁰ and (5) other revenue.¹¹ Miscellaneous revenue collected for FY 2005 totaled \$119.1 million. These collections were \$17.5 million, or 17.2%, above the \$101.6 million revised estimate. Collections in the miscellaneous tax category for FY 2005 were 9.2% higher than collections for the same period in FY 2004. The additional \$16.1 million in collections in FY 2005 were due primarily to higher than expected short term interest rates on District investments coupled with higher than anticipated increases in the District's holdings of unclaimed property.

¹⁰Includes the WASA Pilot Transfer.

¹¹Includes revenue such as dishonored checks, payroll service fees, or other revenue from agencies.

Overall, the District achieved the FY 2005 estimate in the Non-Tax Revenue category. However, the fact that collections were below the revised estimate for fines and forfeitures and charges for services may indicate the need for agencies to further examine and improve the methodology used to develop non-tax revenue estimates or timely implement revenue generating programs that are included in the fiscal year revenue estimates. Further, ORA officials should review and approve each agency's methodology for developing its non-tax revenue estimates and make changes and improvements where appropriate.

OTHER FINANCING SOURCES

Other Financing Sources consisted of legalized gambling. The FY 2005 revised estimate for Other Financing Sources was \$73.1 million. Collections for FY 2005 totaled \$71.4 million, which were:

- ◆ \$1.6 million, or 2.3%, below the \$73.1 million FY 2005 revised estimate; and
- ◆ \$2.1 million, or 2.79%, below collections for the same period in FY 2004.

Collections from Other Financing Sources for FY 2005 represented 97.7% of the FY 2005 revised estimate for this category. Table IX compares actual collections to the estimate for FY 2005 for Other Financing Sources.

TABLE IX
Other Financing Sources:
Comparison of Collections to the Revised Estimate
For Fiscal Year 2005
(\$000)

Other Financing Sources	Collections for FY 2005	Revised Estimate for FY 2005	Difference: Collections Over/(Under) Revised Estimate	Percent Difference
Legalized Gambling	\$71,450	\$73,100	(\$1,650)	(2.3%)

Source: FY 2005 CAFR

A. Legalized Gambling

Legalized gambling (transfers to the General Fund from the D.C. Lottery) for FY 2005 totaled \$71.4 million. These transfers were \$1.6 million, or 2.3%, below the \$73.1 million revised estimate. According to a D.C. Lottery representative and a review of D.C. Lottery reports, collections were below the estimate, in part, because prize payouts, as a percentage of sales, for the Quick Cash and the Daily Six games were higher than estimated in FY 2005. Individuals won the

top prize of \$250,000 at least 12 times in FY 2005 for a total payout of approximately \$3 million as compared to an average of 1 to 2 times in previous years for a total payout of \$250,000 to \$500,000. As a result, actual transfers to the General Fund related to these games were lower than estimated.

DEDICATED NON-TAX "O" TYPE REVENUE

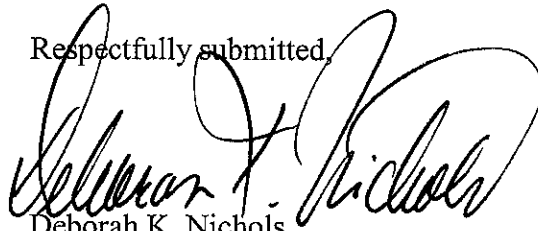
The FY 2005 estimate for dedicated non-tax "O" type revenue totaled \$318 million. Collections for FY 2005 totaled \$312 million which was approximately \$6 million, or .19%, below the estimate of \$318 million. According to ORA and Office of Budget and Planning (OBP) officials, certain District agencies were authorized to spend from their designated "O" type revenue fund balance (revenues carried forward from the previous fiscal year that remained unspent and did not lapse at the end of the fiscal year). The \$312 million in cash collections, accrued revenues, and designated fund balance authority supporting dedicated non-tax "O" type revenue was approximately \$72 million, or 30%, above the collections for FY 2004.

CONCLUSION

Overall, the Auditor's analysis indicated that actual FY 2005 collections were above the FY 2005 revised estimate. The District's collections totaled \$4.476 billion, which were \$129 million, or 2.97%, above the \$4.347 billion revised estimate for FY 2005. The \$4.476 billion in collections represented 103% of the total \$4.347 billion revised estimate and \$413.5 million, or 10.18%, above the \$4.062 billion FY 2004 collections.

Although collections for FY 2005 were below the estimate in the general property taxes category and the general sales and use taxes category they were offset by higher than expected collections for income taxes, gross receipts taxes, and deed transfer and recordation taxes as well as several others. Additionally, while collections for business licenses were above the estimate for FY 2005, collections for non-business permits, fines and forfeitures, and charges for services were all below the estimates. The Auditor notes, however, that the estimates for non-tax revenues were developed by agencies administering the related programs, not ORA. Therefore, ORA should examine and, where applicable, improve or develop the methodology used by these agencies to ensure that the estimates are reliable and reasonable.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Deborah K. Nichols', is written over the typed name.

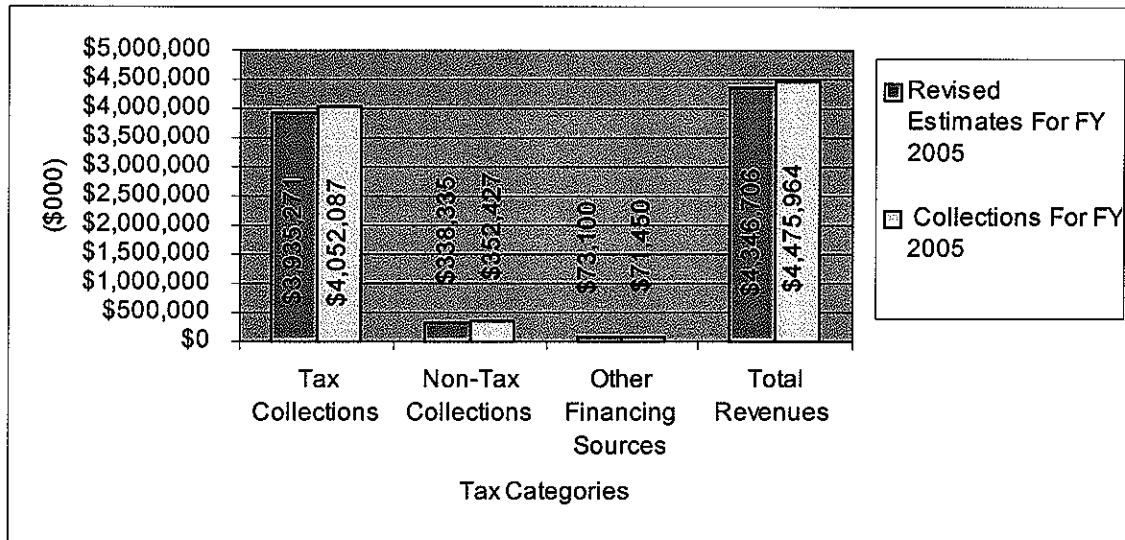
Deborah K. Nichols

District of Columbia Auditor

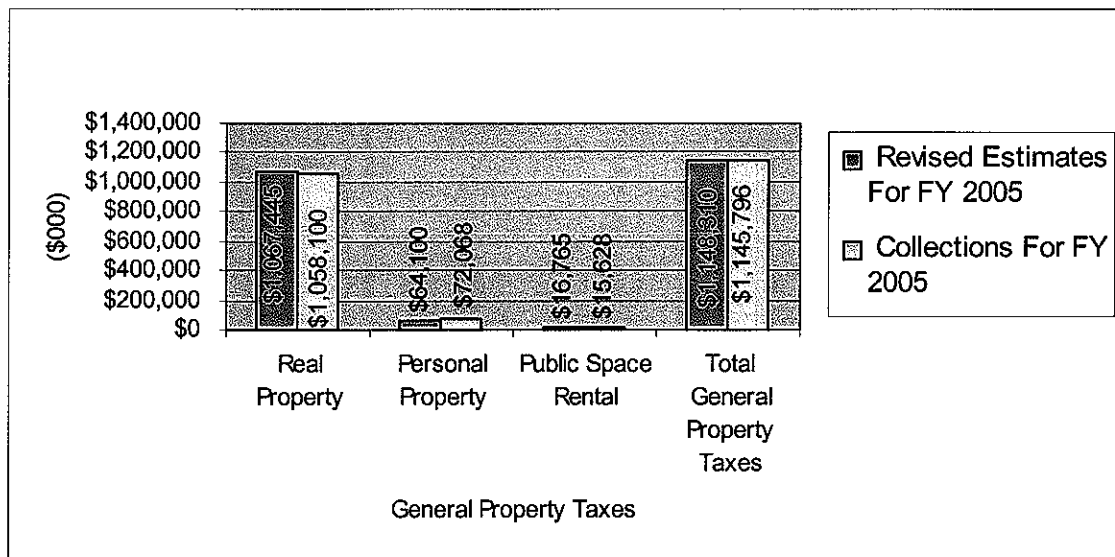
APPENDICES

APPENDIX I

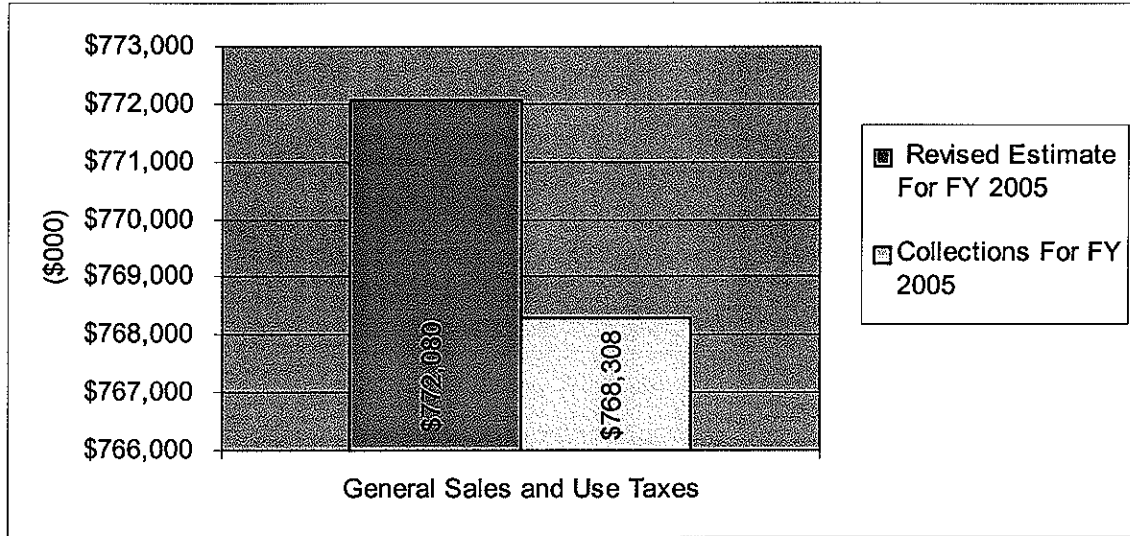
GRAPH I
Summary of Revised Revenue Estimates
to Collections
for FY 2005



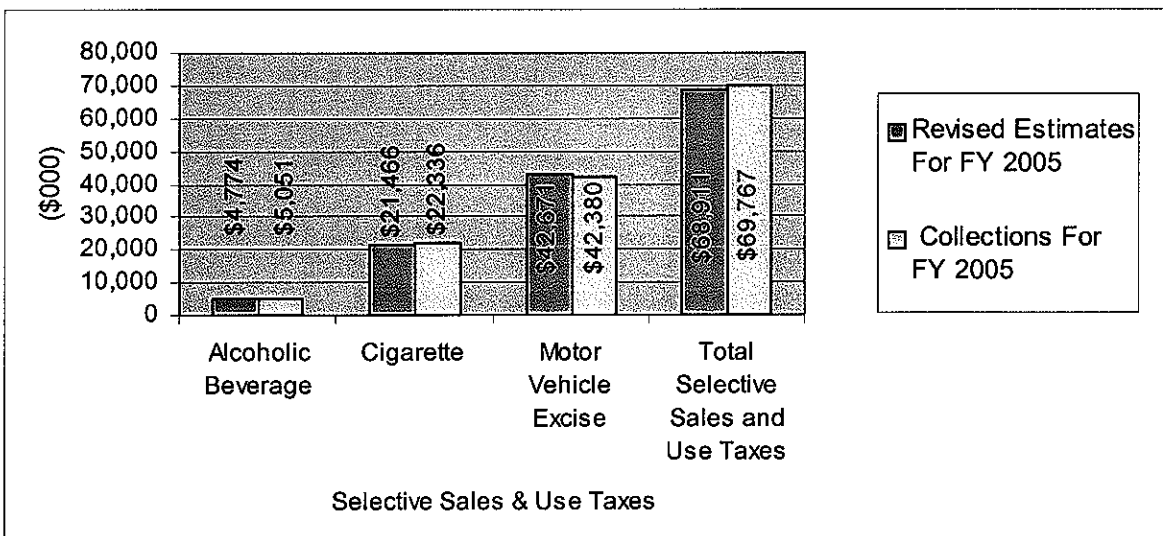
GRAPH II
General Property Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



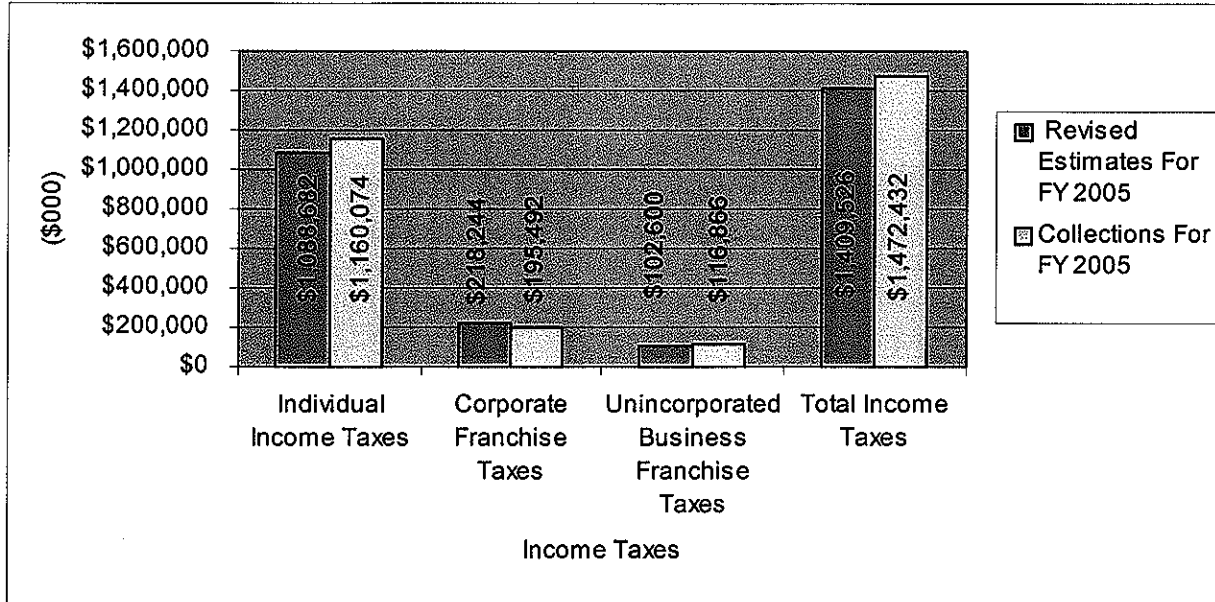
GRAPH III
General Sales and Use Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



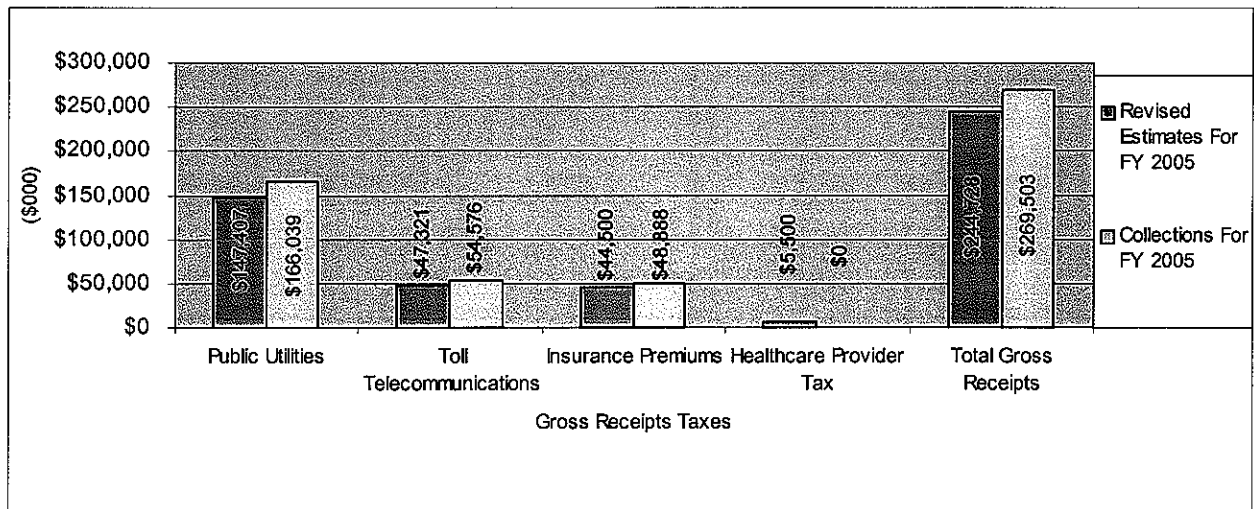
GRAPH IV
Selective Sales and Use Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



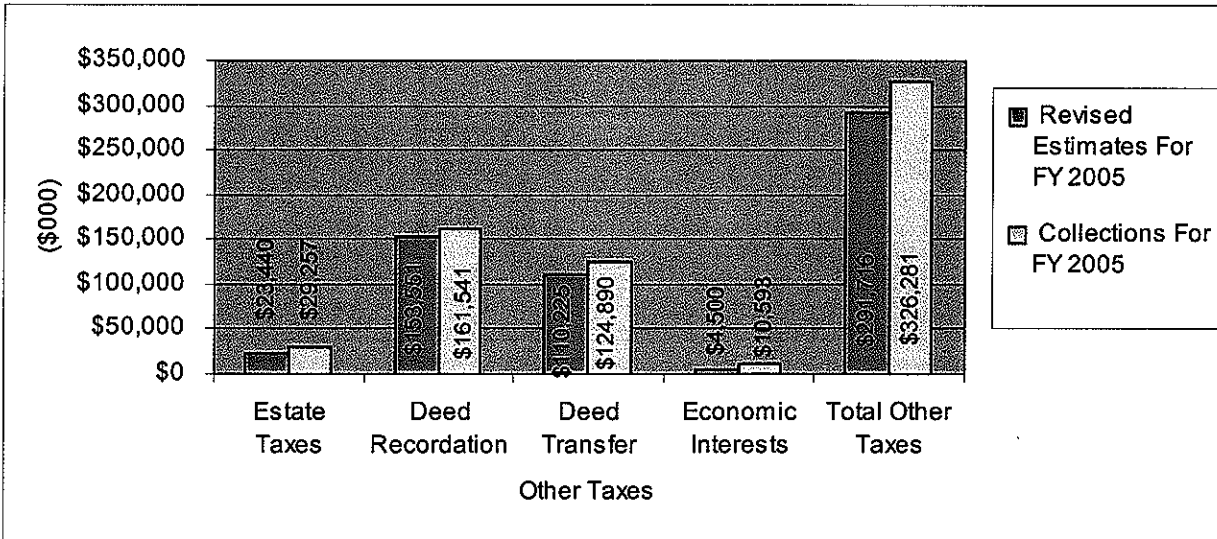
GRAPH V
Income Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



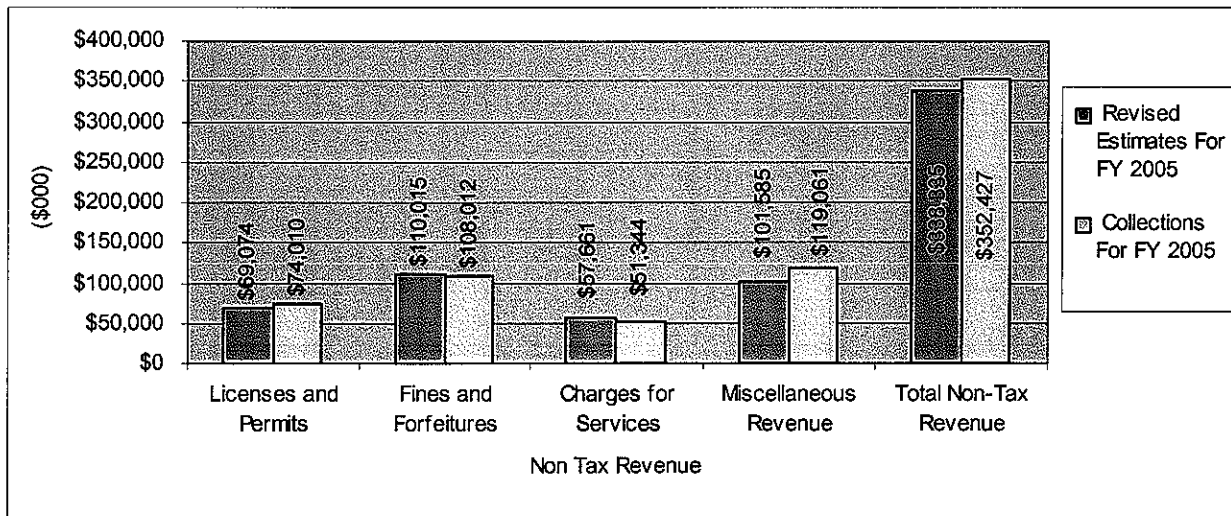
GRAPH VI
Gross Receipts Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



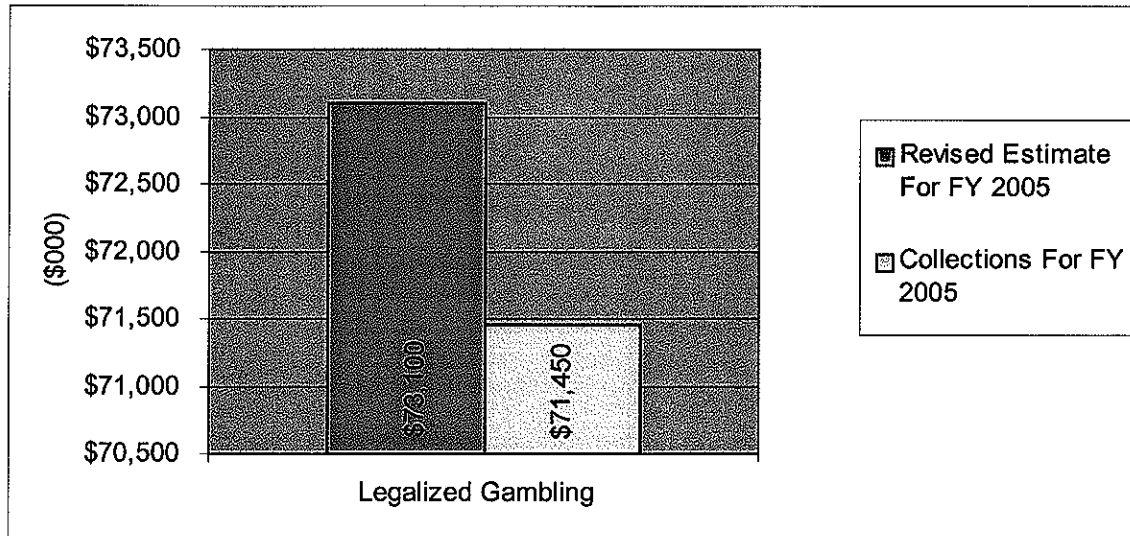
GRAPH VII
Other Taxes
Comparison of Revised Revenue Estimates to Collections
for FY 2005



GRAPH VIII
Non-Tax Revenue
Comparison of Revised Revenue Estimates to Collections
for FY 2005



GRAPH IX
Other Financing Sources
Comparison of Revised Revenue Estimates to Collections
for FY 2005



APPENDIX II

Comparison of Collections Fiscal Years 2001 - 2005¹² (\$000)

Tax Categories	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
General Property Taxes	\$707,423	\$803,389	\$901,888	\$1,027,976	\$1,145,796
General Sales and Use Taxes*	617,217	612,354	631,465	671,017	768,308
Selective Sales and Use Taxes	59,922	56,483	63,029	66,292	69,767
Income Taxes	1,400,237	1,160,424	1,167,452	1,299,009	1,472,432
Gross Receipts Taxes	233,740	231,786	261,348	271,897	269,503
Other Taxes	190,734	283,146	268,192	329,004	326,281
Non-Tax Revenue	315,973	272,759	303,857	323,699	352,427
Other Financing Sources	86,858	63,000	72,050	73,500	71,450
Total Cash Collections Financing the Appropriation ¹³	\$3,612,104	\$3,483,341	\$3,669,281	\$4,062,394	\$4,475,964

Source: CAFRs for FY 2001 through FY 2005

*General sales and use tax collections are reported on a net basis after the transfer of dedicated tax revenue to the Washington Convention Center Authority.

¹²Differences in totals presented in this table are due to rounding.

¹³Dedicated non-tax "O" type revenue collections are not presented in this Appendix.

Comparison of Collections For FY 2005 to Collections For FY 2004¹⁴
(\$000)

Tax Category¹⁵	Collections For Fiscal Year 2005	Collections For Fiscal Year 2004	Difference FY 2005 Over/(Under) FY 2004	Percent Difference
General Property Taxes:				
Real Property	\$1,058,100	\$947,690	\$110,410	11.65%
Personal Property	72,068	63,558	8,510	13.39%
Public Space Rental	15,628	16,728	(1,100)	(6.58%)
Total Property Taxes	\$1,145,796	\$1,027,976	\$117,820	11.46%
General Sales and Use Taxes	\$768,308	\$671,017	\$97,291	14.5%
Selective Sales and Use Taxes:				
Alcoholic Beverage	\$5,051	\$5,090	(\$39)	(.77%)
Cigarette	22,336	20,765	1,571	7.57%
Motor Vehicle Excise	42,380	40,437	1,943	4.81%
Selective Sales and Use Taxes	\$69,767	\$66,292	\$3,475	13.67%
Income Taxes:				
Individual Income Taxes	\$1,160,074	\$1,042,309	\$117,765	11.3%
Corporate Franchise	195,492	168,353	27,139	16.12%
Unincorporated Business	116,866	88,347	28,519	32.28%
Total Income Taxes	\$1,472,432	\$1,299,009	\$173,423	(13.35%)
Gross Receipts Taxes:				
Public Utilities	\$166,039	\$169,494	\$(3,455)	(2.04%)
Toll Telecommunications	54,576	54,951	(375)	(.68%)
Insurance Premiums	48,888	47,452	1,436	3.03%
Total Gross Receipts	\$269,503	\$271,897	\$(2,394)	(.88%)
Other Taxes:				
Estate Taxes	\$29,257	\$26,466	\$2,791	10.55%
Deed Recordation	161,541	164,522	(2,981)	(1.81%)
Deed Transfer	124,890	121,747	3,143	2.58%
Economic Interests	10,593	16,269	(5,676)	(34.89%)
Total Other Taxes	\$326,281	\$329,004	\$(2,723)	(.83%)
Total Tax Collections	\$4,052,087	\$3,665,195	\$386,892	10.55%
Non-Tax Revenue:				
Licenses and Permits	\$74,010	\$61,505	\$12,505	20.32%
Fines and Forfeitures	108,012	99,478	8,534	8.58%
Charges for Services	51,344	53,705	(2,361)	(4.4%)
Miscellaneous Revenue	119,061	109,011	10,050	9.22%
Total Non-Tax Revenue	\$352,427	\$323,699	\$28,728	8.87%
Other Financing Sources	\$71,450	\$73,500	\$(2,050)	(2.79%)
Total Revenues	\$4,475,964	\$4,062,394	\$413,570	10.18%

Source: FY 2005 and FY 2004 CAFR

¹⁴ Rounding may affect some calculations presented in this table.

¹⁵ Collections presented in this appendix do not include dedicated non-tax "O" type revenue collections. General sales and use taxes are presented net of dedicated tax revenue transferred to the Washington Convention Center Authority.